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UNCLAS SECTION 01 OF 02 TEGUCIGALPA 002612

SIPDIS

SENSITIVE

STATE FOR EB/CIP  
GUATEMALA FOR COMMATT:MLARSEN  
DEPT OF COMMERCE FOR THE ADVOCACY CENTER

E.O. 12958: N/A

TAGS: [ECPS](#) [EINV](#) [KPRV](#) [HO](#)

SUBJECT: Telecom Procurement Practices, Less Than Fair?

1. (U) Summary and action request. In an effort to promote transparency in its procurement practices, the Government of Honduras (GOH) decided to contract the UNDP to manage procurements for major infrastructure projects by the state owned telephone company, Hondutel. Unfortunately, in the first two major tenders, both bids have ended with heavy clouds of doubt and strong allegations of wrongdoing from participating U.S. (and other international) companies. The French company, Alcatel, has walked away winning both contracts under highly questionable circumstances. Embassy officers met with both American companies during each bid process and passed along their concerns to the UNDP, Hondutel and the GOH. One company chose to file an official protest with UNDP headquarters in New York, but it appears without success. Post requests assistance from EB/CIP and Commerce Advocacy Center to discuss emerging problems with UNDP. End Summary and Action Request.

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Fiber Optic Network - the first bid  
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2. (SBU) The UNDP conducted its first Hondutel tender on March 21, 2003. The bid was for a fiber optic network to be installed from the North coast city of Puerto Cortes, down through the middle of Honduras, to Tegucigalpa. Midwest Cable Communications (Midwest) approached the Embassy before the tender officially began, to notify the commercial section of its interest in doing business in Honduras and to give a brief company overview. Shortly after the bid opening, Midwest notified the Embassy of rumors of impropriety it had been hearing. Midwest claimed that another bidder, an Israeli company, contacted one of its U.S. subcontractors looking for information on supplies to fill the bid, saying that it had heard Midwest had been disqualified. Midwest became concerned since the bid packages were still under review and should have been confidential at that time.

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3. (SBU) Midwest was puzzled about the prospect of disqualification as special efforts had been made to deliver a high quality bid. When finally notified, the company was told that thirteen other bidders, everyone except Alcatel in fact, had been disqualified. Rumors began circulating that Hondutel and the UNDP based the request for the fiber optic network proposals on an unsolicited proposal previously received from Alcatel.

4. (SBU) Midwest, it turned out, had the lowest bid price, roughly USD 3 million lower than Alcatel's and lower than other European firms as well. Econoffs, concerned by the appearances of impropriety in a bid process in which so many well-known international companies had been disqualified, including the sole U.S. company, raised the issue with Minister for Investment, Camilo Atala, Special Presidential Advisor for Government Reinvention, Mauro Membreno, Hondutel General Manager, Alonso Valenzuela, and UNDP/Honduras representative, Jeffrey Avina. All of these interlocutors indicated that it was the procedures used for this tender that had resulted in these skewed results because not even the smallest of omissions or ambiguities were allowed to be clarified. In addition, Membreno indicated that the procedure of opening both the technical and price envelopes simultaneously, unusual in Honduras, contributed to the confusion. Membreno, Valenzuela and Avina indicated that the procedural errors would be corrected in future tenders.

5. (SBU) Most disconcerting of all for Embassy efforts to assure a fair process for U.S. companies was the obvious finger pointing and buck passing among the parties. Hondutel officials shrugged off any responsibility for the flawed process by indicating that the UNDP was managing the bid, but UNDP in turn blamed Hondutel for providing them with the complete bid package and tender procedures which caused the disqualifications of all but the winning bidder. Membreno, new to his post, showed interest in fixing the problems for the future, but no willingness to reverse the result.

16. (U) Midwest later discovered it had been disqualified on sixteen different counts, a higher number than all other bidders. Some of these 'fundamentals' were as minimal as not specifying the exact type/brand of office furniture to be supplied. Midwest sent letters of dissent to the UNDP in Honduras and Alonso Valenzuela, General Manager of Hondutel. The Embassy also provided Midwest with contact information for the UNDP in New York, but the company decided not to file an official complaint. Note: Though Midwest indicated to the Embassy it would not challenge this result in order to be in good standing for future bids, it appears the company has now lost interest and/or confidence in doing business in Honduras. End note.

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Microwave Network System - the second bid  
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17. (U) In the second UNDP-managed Hondutel bid, a new policy on clarifications appears to have been implemented to the opposite extreme. The request for proposals for microwave equipment has a ceiling of USD 11 million. The U.S. company, Harris Corporation, submitted the strongest technical offer. Harris officials believe the company would have had the lowest economic offer (USD 10 million) if the French had not been allowed to add in required equipment after the bid opening (illegal) and offer that equipment, at an estimated value of USD 3 million, for free. Had Alcatel included this equipment from the beginning its bid would have been USD 11 million. According to Harris representatives, the bid rules do not allow for their bid to be 'clarified' by adding this equipment in their bid after bid opening, as it is a fundamental part of the project. Alcatel is also rumored to have included a substandard network management system in their bid that did not meet the bid minimum requirements. The Alcatel bid allegedly included an option written into the bid which would allow for the Hondurans to upgrade the system later - a necessary upgrade that would have added millions to their bid price.

18. (U) Emboffs met with Harris representatives and followed up with calls to UNDP Honduras officials to underscore the importance of Harris' concerns. The UNDP Honduras representative expressed surprise at the allegations from Harris, stating no company should know the details of other companies' bids as the process was still under review and any company having such knowledge should be disqualified. The same official noted, however, that he had received inquiries and complaints from the German Embassy as well. Harris attorneys sent letters of dissent to Honduras UNDP representatives and Hondutel General Manager, Alonso Valenzuela, as well as UNDP headquarters in New York.

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Comment  
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19. (U) The GOH decided to outsource to the UNDP procurements in several ministries, precisely in order to assure transparency and eliminate corruption. By most accounts, the UNDP is doing a fairly good job at managing procurement of medicines for the Ministry of Health and achieving these aims. However, if these two telecom cases are any indication, the UNDP (and GOH) are failing miserably in the telecom procurement processes. In these two cases, each involving only one U.S. company, even the most basic requirements of sound procurement processes appear to be ignored. In the fiber optic case, the government utility is going to pay 30 percent more for a key infrastructure project than needed because of the most minimal of omissions in the bid package. In the microwave tender process, the UNDP appears to be allowing the same French company to change the key terms of the bid after learning the details of other bidders' packages; moreover, UNDP did not disqualify Alcatel for failing to provide software up to specification. By our reading of Honduran procurement law, this latter breach is patently illegal. And finally, in both cases, Hondutel or UNDP officials working on the evaluation committee leaked information about the state of the tenders with impunity. The UNDP has not allowed any on-the-record discussion of the flaws in the process, vaguely threatening that any such discussions with the Embassy could hurt the U.S. companies' chances of receiving redress. Any guidance from Washington agencies for post on the appropriate way to pursue these advocacy cases at this time, or to call for an overall review of UNDP's program here in Honduras, would be greatly appreciated. End comment.

Palmer